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C O N F I D E N T I A L SECTION 01 OF 05 MEXICO 000803

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SUBJECT: SCENESETTER FOR THE SECRETARY'S VISIT TO MEXICO,
MARCH 25-26

Classified By: Political Minister Counselor Charles V. Barclay.
Reason: 1.4 (b), (d).

11. (SBU) Mission Mexico warmly welcomes you to Mexico City and Monterrey. President Calderon recognizes the broad-ranging challenges his country faces, has the vision and political will to address them strategically and wants to work closely with us to meet common goals that are fundamental to homeland security and North American prosperity. The Merida Initiative provides a framework for us to significantly increase counter drug cooperation and support President Calderon's aggressive efforts to combat Mexico's drug cartels. Calderon will stress the need for the U.S. to do more on combating arms trafficking, money laundering and the demand for drugs in the U.S. He will also likely seek greater insight on our approach on NAFTA and immigration issues and raise concern about the suspension of the U.S.-Mexico trucking program. All of your interlocutors, including President Calderon, will be keenly interested in who our next Ambassador to Mexico will be.

PRESIDENT CONFRONTING SECURITY CHALLENGES WITH UNPRECEDENTED COMMITMENT

12. (SBU) Polls suggest the public is becoming increasingly concerned with rising drug-related violence but that most concede there are few alternatives to President Calderon's current efforts. While drug related arrests and seizures are up, Mexico's demoralized police remain outgunned, and are generally intimidated by the cartels. Security elements remain suspicious of each other and reluctant to cooperate and share information. Mexico's federal system makes it difficult for federal law enforcement elements (merely five percent of the country's police) to insert themselves into state and city jurisdictions. Within Mexico's dysfunctional judiciary, 90-95 percent of crimes do not result in convictions and the average trial lasts over eight months.

13. (U) Despite these challenges, the Calderon government remains committed to improving the country's security situation through aggressive law enforcement and military deployments, as well as reforming the country's policing and judicial institutions. President Calderon is running joint military-law enforcement anti-narcotic operations in ten states. He has deployed 30,000 troops dedicated to counter-drug activities, including 5,000 troops to Ciudad Juarez in early March to take over policing activities there.

He has increased the budget of the security forces each year since he took office, including a dramatic increase to nearly USD 5 billion in the current budget. In coordination with other political parties, he also ushered through

Congress four important security and justice reform packages that, if appropriately implemented, will help to modernize and restructure the country's justice system, as well as improve and better coordinate Mexico's disparate police forces.

U.S. JOINS GOM EFFORTS, CALDERON SEEKS MORE U.S. ACTION

¶4. (SBU) The Merida Initiative represents an historic opportunity for the U.S. and Mexico to demonstrate shared resolve in facing up to the challenges posed by organized crime across our border. The U.S. is assisting Mexico this year with \$400 million in assistance programs earmarked for inspection equipment, communications technology, technical assistance, training, and helicopters and surveillance aircraft. There have been some complaints from Mexican officials (including President Calderon) and in the press about delays in program implementation, but there is a smooth flow of programs and increasingly close cooperation across multiple agencies that is producing an entirely new architecture for bilateral security cooperation. There are projects which have already begun to bear fruit and most of the programs should be underway by the summer, although many are long term in nature and will not yield early results.

¶5. (SBU) Meanwhile President Calderon has identified a number of areas where he would like the U.S. to do more, particularly on our side of the border.

-- Arms trafficking: With violence rising to unprecedented levels and reports indicating that over 90 percent of cartel

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weaponry coming from the U.S., President Calderon will surely raise his concern about the flow of arms south. ICE and ATF are active at post and are expanding operations on the U.S. side of the border to target the illegal sales of firearms being smuggled into Mexico. The GOM will press for more integrated and coordinated actions.

-- Money laundering/smuggling: The illicit drug trade is the main source of funds laundered through the Mexican financial system, though other major sources include corruption, kidnapping and trafficking in firearms. We estimate that since 2002, drug trafficking organizations have repatriated more than \$22 billion from the United States, capitalizing on a sophisticated financial sector and relatively weak regulatory controls. President Calderon is committed to improving interdiction of money laundering, by further empowering Customs agents, for example. We are providing interagency assistance, training and support, but the GOM will request the U.S. expand controls on our side of the border as well.

-- Drug demand: Calderon has recently spoken publicly to how the U.S. appetite for drugs drives Mexico's present-day security challenges. He is looking for the U.S. to rededicate itself to combating drug demand at home.

WEATHERING THE GLOBAL FINANCIAL CRISIS

¶6. (SBU) Mexico's macroeconomic policy is well-run; however, the global crisis has pushed Mexico into recession. Exports, industrial output, remittances from abroad and foreign direct investment all are decreasing, while unemployment and inflation are on the rise. The peso has depreciated 50 percent against the dollar in the past year, and oil production - a major source of revenue for the GOM - is declining steadily. Calderon's stimulus package is not protectionist; it includes tax incentives for businesses, subsidies to shore up and boost employment, and a multi-billion dollar infrastructure development plan. However, these initiatives may not be enough to pull out of recession. As 82 percent of Mexico's exports are destined for the United States and we are Mexico's largest foreign direct investor, the future of Mexico's economy depends heavily on the future of ours.

BUILDING ON NAFTA

¶ 7. (SBU) The GOM wants details from us on how we would like to proceed on NAFTA. While much of the Mexican left like to use NAFTA as a scapegoat for Mexico's enduring poverty problems, the Calderon administration has conveyed serious misgivings about reopening NAFTA given the contribution it has made to vastly expanded North American trade. At the same time, Calderon has indicated willingness to build on NAFTA's accomplishments, perhaps by strengthening side agreements in the areas of labor and the environment.

TRUCKING AND OTHER TRADE IRRITANTS

¶ 8. (SBU) Since the congressional vote to end the cross-border trucking demonstration project, Mexican carriers operating in the U.S. have ceased operations, while Mexico is considering allowing currently-authorized U.S. carriers to continue to operate in Mexico. Consistent with a 2001 NAFTA arbitration panel ruling, Mexico announced 17 March that it would retaliate against \$2.4 billion in U.S. goods. The list of targeted products, which went into effect 19 March, notably steers clear of several major exports, including beef, pork, and corn syrup. The 90 affected products range from potatoes and onions to wine and deodorant. The GOM has left the door open to modify the list to apply or reduce pressure as warranted. President Calderon has warned in recent speeches against a turn to protectionism, but has not commented publicly on trucking or retaliation. Mexico may be receptive to a U.S. overture to establish a replacement trucking program, but will be looking for a firm implementation timeline and potentially a new program that is broader than the canceled pilot.

¶ 9. (SBU) After WTO consultations in Washington on February 27, all indications are that the GOM will continue to move forward with its WTO challenge against U.S. Country of Origin Labeling (COOL) regulations. Prior to the consultations,

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Secretary of Agriculture Vilsack, in a letter to the U.S. industry, committed to implementing the Final Rule on March 16 and urged them to exceed the minimum COOL requirements as promulgated by the previous Administration. The GOM continues to face pressure from the domestic livestock industries to take immediate retaliatory action, such as a "mirror policy" on U.S. pork imports. Mexican cattlemen claim COOL requirements have significantly undercut the price of each head of cattle exported to the United States, even though they meet all U.S. sanitary requirements for entry.

THE ENVIRONMENT: EMERGING PARTNERSHIP?

¶ 10. (SBU) President Obama made fighting climate change and other environmental risks a priority of his administration. President Calderon is similarly committed to fighting climate change. Mexico was one of the first developing countries to announce a target for greenhouse gas. The GOM would welcome the prospect of North America demonstrating greater leadership and initiative in developing public and private sector programs to combat climate change, deforestation, and industrial waste and foster the development of alternative clean energy sources. Mexico has significant potential to expand renewable energy sources and has committed to generating 26% of its electricity with renewables by 2012. The Mexican government also supports a North American carbon cap and trade program - something we have not agreed to.

TACKLING THE IMMIGRATION CHALLENGE

¶ 11. (SBU) Facilitating migration between the U.S. and Mexico remains a high priority. The remittances sent back here by undocumented Mexicans living and working in the U.S. represent the largest source of foreign currency after oil and tourism. Remittances were down 3.6 percent from 2007 to

25 billion dollars. Illegal migration will remain a challenge between our two countries for some time. GOM officials and the Mexican public will be looking for the new administration to tackle this challenge.

MEXICO'S ENERGY DILEMMA

¶12. (SBU) Energy reform legislation passed last year did little to improve prospects for the kind of private investment Mexico needs to explore for oil in deeps waters and expand declining production. The Mexican government depends on oil revenues to finance almost 40% of the federal government, and oil exports are the largest source of foreign exchange. Mexico is ratcheting up efforts to engage the USG on a possible treaty governing transboundary reservoirs. The GOM may raise this issue with you in an effort to create momentum. With leading Mexican papers routinely printing articles erroneously claiming that drilling on the US side of the Gulf of Mexico is siphoning off huge quantities of Mexican oil, the GOM is also under pressure from the Mexican Congress to take quick action. US and Mexican officials are meeting in New Orleans March 31 to discuss the possibility of a bilateral treaty.

SEEKING A LARGER INTERNATIONAL PROFILE

¶13. (SBU) Mexico seeks to assume a larger, more responsible profile on the international stage. It views itself as a leader in Latin America as manifested last year when it offered its services to broker an understanding between Ecuador and Colombia after the later crossed their border in pursuit of FARC leaders. (Note: Several Mexican student were killed in the attack. End Note.) At the same time, it values greatly its membership in North American fora as well as its unique relationship with the U.S. and is proud that Mexico represents your first visit to Latin America. Under Calderon, Mexico has normalized relations Cuba allowing for expanded trade and an immigration agreement that facilitates the repatriation of illegal Cubans detained in Mexico; Calderon is looking at making a possible trip to Cuba in late April. We have been informed Mexico will seek U.S. support for its candidacy to the Inter-American Human Rights Commission.

¶14. (SBU) Mexico is a member of the United Nations Security Council (2009-2010) and assumes the presidency in April. On March 13, at the request of the GOM, a delegation of State

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Department experts lead by Acting Assistant Secretary of International Organizations Jim Warlick visited Mexico for consultations focusing on issues likely to be on the agenda in April including the renewal of the UN's mandate for the Western Sahara (Mexico recognizes Polisario), the Sudan (Mexico favors respect for the ICC's decision against al-Bashir), Iran and North Korea (Mexico shares our concerns), Haiti (Mexico is UNSC lead but is not ready to contribute to PKO for internal reasons) and Children in Armed Conflict. Mexico shares our concern about the UN's spiraling budgetary expenses and has signaled its disposition to working closely with us on key issues and serving as a bridge to NAM countries.

POLITICAL LANDSCAPE

¶15. (SBU) In addition to growing concerns over the economy, crime and violence, the President and his party face a hardening political environment here in advance of legislative and key gubernatorial elections later this year. The long-ruling Institutional Revolutionary Party (PRI), in particular, is expected to make gains. In this political environment, each of the parties including the governing National Action Party (PAN) have assumed a more assertive, populist stance. Comments on the U.S. regarding its "responsibility" for Mexico's organized crime problem, and calls on the U.S. to solve its own "corruption" problems

should be viewed in light of the building competition for votes, as well as sensitivity about several U.S. reports describing Mexico as a potential "failed state." Conveying strong support for the government's efforts to meet the challenges posed by organized crime by, in large measure, building strong institutions should go far in demonstrating our confidence in Mexico's contribution to the region's stability and prosperity.

MONTERREY NOT IMMUNE TO SECURITY, ECONOMIC PROBLEMS

¶16. (SBU) In the final months of his six year term, Nuevo Leon Governor Jose Natividad Gonzalez Parás still enjoys respectable approval ratings despite security concerns. The Governor has had a vision to transform Nuevo Leon from manufacturing to innovation and services, to further develop the state as a transportation hub, and to build a cultural heritage. To promote innovation and high technology products, he built a &City of Knowledge8 industrial park near the airport that houses government agencies, local and international businesses and Mexican and U.S. academic institutions. He has also built substantial infrastructure in Nuevo Leon. As an important outstanding goal remains construction of the Colombia railroad bridge to connect Monterrey to Texas, the Governor will inquire about a Presidential Permit for the bridge, a process which is nearly complete.

¶17. (SBU) In addition to national mid-term Congressional elections, the Nuevo Leon Governor's race in July 2009 could be an important bellwether demonstrating the relative strength of the PRI and the PAN parties. Since the PRI party is expected to do well in the national Congressional races, the PAN party hopes to recover the Nuevo Leon Governorship from the PRI to demonstrate support for the PAN party and President Calderon. The local PAN and PRI parties are ideologically similar, both supporting trade and a supportive business climate to create jobs. Both have also nominated mainstream pro-U.S. candidates; the leftist PRD is a non-factor locally.

¶18. (U) Nuevo Leon has been hit hard by the U.S. economic recession, as shown by falling exports, employment and foreign investment. Although Nuevo Leon is working to move into services and innovation, its bread and butter remains the manufacture of durable consumer items such as automobiles, home appliances and electronic goods. On the brighter side, Nuevo Leon is relatively unaffected by declining remittances, since due to its past economic success far fewer people from Nuevo Leon have migrated to the United States to find work.

¶19. (SBU) Historically, Monterrey had been seen as a safe city, where drug cartels operated their lucrative drug trafficking routes into the United States but without

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disruptive violence. The rules have changed, and the drug cartels are now openly challenging the government and civil society.

-- On October 11, 2008, near midnight unknown gunmen shot six to eight rounds and tossed an undetonated grenade at the U.S. Consulate. Post law enforcement officials interpret this attack as a warning to stop assisting Mexican federal police and the military with intelligence in operations against the drug cartels.

-- On January 6, gunman attacked the Monterrey affiliate of the Televisa TV network during a live broadcast, shooting at the building and throwing a grenade that did explode -- although no one was injured.

-- The publisher of the leading newspaper El Norte has fled to live in the United States due to threats by the drug cartels.

-- In February, drug cartels staged demonstrations against the Mexican military's involvement in local law enforcement operations, shutting down major thoroughfares for hours in Monterrey for five straight days, with the state and local police afraid to intervene.

The drug cartels and common criminals have taken advantage of weak and intimidated state and municipal police forces to extort money from small Mexican businesses and kidnap middle class Mexicans for ransom. So far, these kidnappers have refrained from striking either foreigners or the wealthiest Mexican business leaders.

¶20. (C) Nuevo Leon also faces major problems with corruption of state and municipal police. The Nuevo Leon Secretary for Public Security publicly admitted that over 50% of the municipal police forces in the state have been infiltrated by the narcotics cartels, and efforts to reform state and local police forces have not been successful. Meanwhile, state and municipal police officials support the Merida Initiative, and they have asked Consulate officials for Merida resources to assist them. The Mexican drug cartels, aside from intermittent Mexican military operations, operate with near impunity in Nuevo Leon. The public strongly supports President Calderon's fight against the drug cartels, but given rampant corruption and the strength of the drug cartels, the fight against narcotics traffickers will be long and bloody.

MEETING DAUNTING CONSULAR CHALLENGES ACROSS MEXICO

¶21. (U) Mission Mexico is the largest U.S. consular operation in the world with 9 consulates, 14 consular agencies, and the consular section in the Embassy. Consular work here impacts directly on more than 150,000 U.S. citizens who come to the Embassy or a consular post each year for services. Separately, Mission Mexico processed 130,000 immigrant visas last year, nearly 20% of the world's total as well as over 1,300,000 nonimmigrant visa applications. We expect the latter number will rise to approximately 2.7 million a year as we replace Border Crossing Cards with security enhanced laser visa cards. Since full implementation of the Western Hemisphere Travel Initiative in June 2009 will require U.S. citizens to hold passports when traveling to Mexico, the mission is also prepared for a surge in demand by resident and traveling U.S. citizens for passports. With our two hundred consular officers, often working in dangerous or inhospitable environments and reaching constituencies throughout the entire country, more foreign service officers work in consular sections than in any other section of the mission.

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BASSETT